STATE OF ILLINOIS

BEFORE THE ILLINOIS COMMERCE COMMISSION

Interstate Power and Light Company and ITC Midwest LLC Joint Petition For Approval Of Sale of Utility Assets Pursuant To Section 7-102; Transfer of Franchises, Licenses, Permits or Rights to Own Pursuant to Section 7-203; Transfer of Certificates of Convenience and Necessity Pursuant to Section 8-406; Approval of the Discontinuance of Service Pursuant to 8-508; and the Granting of All Other Necessary and Appropriate Relief.	:	Docket No. 07-0246

ITC Midwest Exhibit PAW 7.3

ITC Holdings

Analyst: Neil A. Kalton, CFA
314-955-5239

Associate:

Electric Utilities

Equity Research Recent Development Report

BUY/CONSERVATIVE

Symbol:	**ITC**	Dividend:	**$1.10**
Exchange:	**NYSE**	Yield:	**2.6%**
Recent Price:	**$41.66**	Price Objective:	**$48.00**

UTILITIES

We View the Proposed IP&L Acquisition Favorably; Price Objective Raised to $48

- **We have raised our 12-month price objective to $48 from $44 to reflect the proposed acquisition of IP&L's transmission assets.**
- **We expect the acquisition will be immediately 5-10% accretive to ITC's EPS and additive to the company's long-term growth prospects.**
- **While ITC has not yet provided future capital investment needs for the IP&L system, the company expects them to be significantly driven, in part, by transmission needs in the region related to proposed ethanol production facilities and wind generation.**
- **The transaction is expected to close in the fourth quarter of 2007 pending the necessary FERC and state regulatory approvals.**
- **We have raised our 2008 EPS estimate to $2.05 from $1.90 to reflect the acquisition. In addition, we have increased our 5-7 year annual EPS growth prospects to 15%-17% from 15%.**

FUNDAMENTAL DATA

	Fiscal Year Ends Dec		
	2005A	**2006E**	**2007E**
EPS:	$1.19	$0.98	$1.75
P/E:	NA	42.5X	23.8X
ROE:	16.6%	12.4%	14.3%

Est. 5-Year EPS CAGR	16.0%
Est. 5-Year Div. CAGR	3.0%
Book Value Per Share	$8.02
Price/Book Value	5.2X
Common Equity/Capital	30.7%
Dividend Opinion	1
S&P Debt Rating	BBB
Market Cap ($mil.)	$1,750
Shares Outstanding (mil.)	42

AGE Lists:

Disclosure Information: Please refer to the last two pages of this report for important disclosure information and analyst certifications.

Price Objective Increased to $48 from $44

We have increased our 12-month price objective to $48 from $44 to reflect ITC Holdings (ITC/Buy) announced acquisition of the transmission assets of Interstate Power & Light Company (IP&L). IP&L's transmission assets will be owned and operated by ITC Midwest, a wholly owned subsidiary of ITC Holdings.

Our $48 price objective is based on our expectation that the acquisition will be immediately 5%-10% accretive to ITC's EPS, with the expectation for future growth opportunities. Admittedly, it is difficult to determine the incremental value-creation opportunity of the acquisition considering ITC Midwest's future capital investment needs are not fully known. At this point, we assume ITC Midwest is able to grow annual earnings by approximately 5%-7% over the next 5-7 years. This compares with our expectation for roughly 15% annual earnings growth for ITC's Michigan utilities over a similar time horizon. Please refer to the 'Valuation" section at the end of the report for a more in depth discussion of our valuation methodologies.

ITC to Purchase Transmission Assets of IP&L

On January 19, ITC Midwest, LLC, a wholly owned subsidiary of ITC Holdings, entered into a definitive agreement to purchase the transmission assets of IP&L for $750 million in cash. IP&L, which is a wholly owned subsidiary of Alliant Energy, owns 6,800 miles of transmission lines primarily located in Iowa with some assets in Illinois and Minnesota. The transaction is expected to close during the fourth quarter of 2007 pending the necessary Federal Energy Regulatory Commission (FERC) and state regulatory approvals.

Key points:

- ITC expects the transaction to be immediately accretive to earnings on a GAAP basis and additive to the company's 5-7 year EPS growth prospects.

- The acquisition is an asset purchase; ITC is not assuming any IP&L debt. The company plans to finance the transaction with a mixture of debt and equity issuances. We expect ITC will structure its capital market activities to maintain a target debt/equity ratio of approximately 70%/30% at the parent level.

- The purchase price of $750 million is subject to a number of adjustments including, most notably, adjustments related to IP&L's actual rate base at year-end 2007 (expected to be $400-$425 million).

- Completion of the acquisition is contingent on a number of factors including the designation of all of IP&L's lines with voltages of 34.5 kilovolt (kV) and above being designated as "transmission assets" and ITC Midwest's regulatory constructs mirroring those of ITC's existing Michigan utilities (i.e., Attachment O ratemaking mechanism and capital structure consisting of 60% equity, etc.). The acquisition agreement contains a walk away date of December 31, 2007.

Analysis & EPS Outlook

Our initial impression of the acquisition is favorable given (1) the acquisition appears to be immediately 5%-10% accretive to EPS, (2) there could be considerable transmission investment needs in the region related to planned ethanol production facilities and wind generation and (3) the acquisition materially expands ITC's footprint in the Midwest, providing a greater platform for future growth opportunities and enhancing the company's credibility. The transaction does not come as a complete surprise as Alliant Energy (LNT) had previously announced it was exploring strategic alternatives for IP&L's transmission assets, including a possible divestiture. That being said, we believed Wisconsin-based American Transmission Company (ATC) had the inside track considering LNT is a minority owner of ATC (ATC owns and operates LNT's former Wisconsin transmission assets). We were somewhat concerned that ITC's bid would have to be on the aggressive side in order to "win" this opportunity, however, we are very encouraged that the acquisition appears as if it will be immediately accretive to the company's EPS.

On the regulatory front, we fully expect the FERC to approve the acquisition and permit ITC Midwest to implement similar regulatory constructs that ITC Holdings enjoys at its Michigan utilities. The acquisition is squarely aligned with the FERC's stated policy initiative to encourage transmission independence and regional transmission companies. However, we are somewhat concerned that the acquisition might meet a little resistance at the state level. Our concerns reflect the possibility that the acquisition will result in a rate increase for customers and also reflects potential fears related to "foreign" ownership of the grid. At this point, we do not know if our concerns are well-founded, but we think it is something for investors to consider. Clearly, ITC will be working closely with the respective state regulatory bodies to highlight the long-term benefits of independent transmission ownership and their transmission expertise, etc.

EPS Outlook

We have raised our 2008 EPS estimate to $2.05 from $1.90 to reflect the acquisition and the strong likelihood, in our opinion, that the transaction will be completed. By our calculations, the transaction will be $0.10-$0.20, or 5%-10%, accretive to ITC's 2008 EPS. We assume ITC finances the transaction with 70% debt ($525 million at a 6% interest cost) and 30% equity ($225 million of common stock issued at $41 per share). In addition, we assume rate base of $412 million, a capital structure for ITC Midwest consisting of 60% equity and an allowed ROE between 12.0%-13.5%. Further, as ITC did not assume any debt, we allocate approximately $10 million of pre-tax interest expense to ITC Midwest that would be recoverable through rates (assuming a 40% debt ratio, or debt rate base of $165 million, at the utility).

Beyond 2008, ITC Midwest's EPS growth will be dependent on the magnitude of capital investment needs in the region. ITC has not provided any specifics with regard to future capital expenditures, other than to state that there is expected to be considerable investment needs related, largely, to energy infrastructure investment. In particular, the company cites needed transmission investment to support planned ethanol production facilities and wind generation. We have raised our 5-7-year annual EPS growth rate to 15%-17% (off a 2005 EPS base of $1.19) from 15% to reflect the acquisition. Our growth rate does not include potential incremental organic investment opportunities in Michigan, largely related to the proposed transmission line with American Electric Power, or Kansas.

Valuation:
Our 12-month price objective of $48 per share is largely based on the following assumptions:

- **$38 per share based on stated investment plans in Michigan & Interstate Power & Light-related earnings.** We apply a P/E multiple of 15.5X to the mid-point of our 2012 EPS estimate of $3.30 (up from $3.00). We discount the resulting share price of approximately $51 by a required rate of return of 7.8%. Our required rate of return is based on a risk-free of 4.8% and a 300 basis point equity risk premium.

  Our assumed P/E multiple of 15.5X is a modest premium to the Traditional Power Companies 2008 P/E multiple of 15.1X. We think ITC deserves a modest premium given its lack of exposure to state regulatory bodies.

- **$10 per share based on incremental investment opportunities.** We factor in additional organic investment opportunities of $1.0 billion by 2014. By our calculations, every $100 million in additional capital expenditures achieved by 2014 results in increased present value (PV) of approximately $1 per share. Our PV calculation is also based on a P/E multiple of 15.5X and a required return of 7.8%.

  We think $1.0 billion of incremental capital expenditures is achievable. First, we estimate that identified investment opportunities in Kansas and Michigan (related to interconnections with American Electric Power's system) could total over $2 billion. Second, we think the ultimate investment needs for ITC*Transmission* and METC could be higher than the company's projected $1.6 billion through 2011. To the extent ITC is able to successfully execute on its capital plan, the company might be able to ramp up spending in Michigan. Finally, the industry wide increase in transmission-related spending creates the potential for cost creep on labor and materials.

Comparative Valuation. As the first publicly traded independent transmission company, ITC is unique and is, therefore, not a perfect match for any of our electric power peer groups for comparison purposes. We include ITC in our Wires & Pipes Group, but acknowledge that there exist material differences between ITC and the rest of the group. First, the peer companies derive the majority of their earnings from distribution assets, which are regulated by state utility commissions. State regulation of distribution tends to be less predictable and generally not as favorable as FERC's pro-transmission regulatory principles. Second, some of the peer companies participate in higher risk competitive energy businesses. While modest, this exposure adds to the group's risk profile versus ITC's strictly regulated operations.

ITC shares recently traded at 20.3X our 2008 EPS estimate of $2.05, which represents a material 24% premium to the Wires & Pipes Group median of 16.4X and a 34% premium to the Traditional Power Companies median of 15.1X. We think a higher premium valuation multiple is warranted considering ITC's strong EPS growth potential and low risk profile. Our 5-year annual EPS growth outlook of 15% for ITC is far superior to that of the peer group, which we estimate will be roughly 5%-7%. In addition, we consider ITC's risk profile to be lower than the peer group's given (1) more favorable regulation and (2) no exposure to competitive businesses.

Risks to Valuation:
Risks to valuation and achieving our price objective include capital expenditure delays or cancellations, adverse regulatory developments such as the failure to secure the necessary approvals for the acquisition of Interstate Power & Light's (IP&L) transmission assets, share liquidity concerns, sitting issues, a persistent economic downturn in Michigan's economy and interest rate sensitivity.

Company Description:
ITC Holdings is the holding company for International Transmission Company, which owns 2,700 pole-miles of electric transmission in southeastern Michigan, including the Detroit area. The company's recent acquisition of Michigan Electric Transmission Company (METC) expands ITC's footprint to most of the Lower Peninsula of Michigan.

SUMMARY OF EPS CHANGES

Fiscal Year Ends Dec							
EPS	2005A	2006E	Prior	2007E	Prior	2008E	Prior
Qtr1	$0.25	$0.08A					
Qtr2	$0.37	$0.23A					
Qtr3	$0.40	$0.48A					
Qtr4	$0.05	$0.19					
Year	$1.19	$0.98		$1.75		$2.05	$1.90
P/E		42.5X		23.8X		20.3X	

SELECTED FINANCIAL STATISTICS

(DOLLARS IN MILLIONS EXCEPT PER SHARE)

Fiscal Year Ends Dec	2001	2002	2003	2004	2005	CAGR (%)	2006E	2007E	2008E
Revenues			$102	$126	$205		$194	$422	$450
Net Income			-8	2	39		34	75	99
Cash Earnings			53	50	62		88	179	198
Shares Outstanding			29	31	33		34	43	49
Earnings Per Share			-0.27	0.08	1.19		0.98	1.75	2.05
Dividends Per Share			0.00	0.00	1.05		1.09	1.14	1.18
Price Range (High)					30				
Price Range (Low)					26				
P/E Range (High)					25				
P/E Range (Low)					22				
Return on Equity (%)				1.3	16.6		12.4	14.3	11.9

CAGR – Compound Annual Growth Rate
Cash Earnings - Net Income plus goodwill amortization
Dividend Opinions: 1 - Secure with growth; 2 - Secure with little or no growth; 3 - Secure intermediate term, might not be secure long term; 4 - Not secure

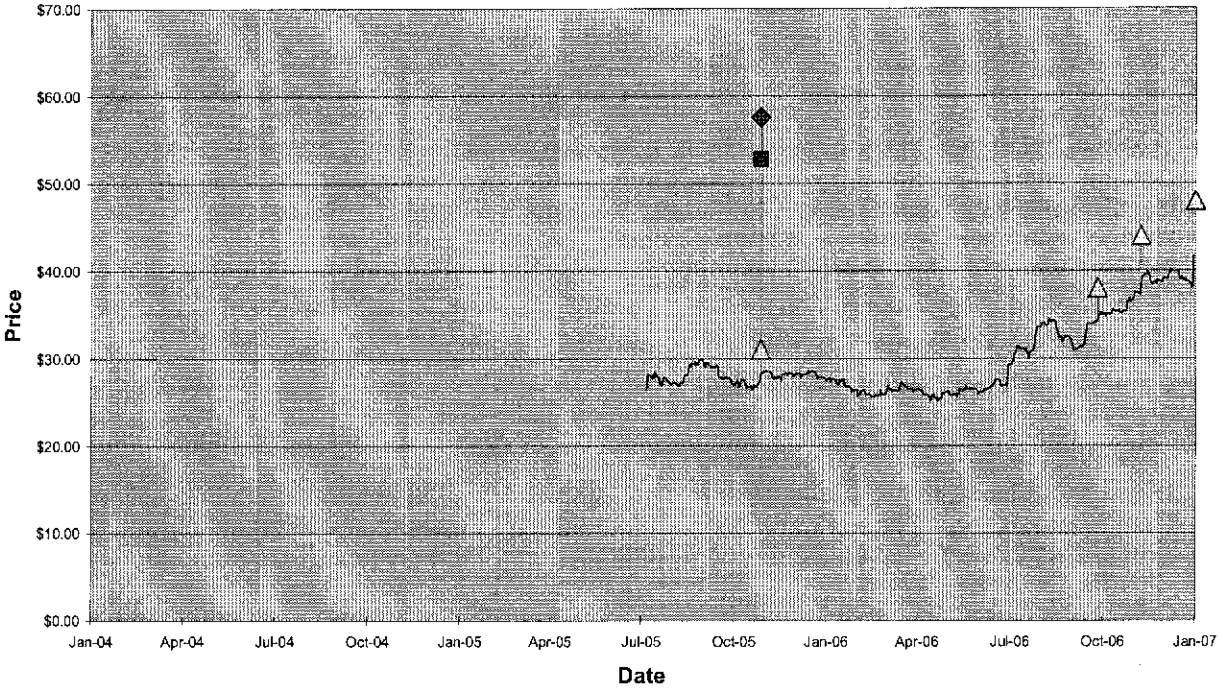
SELECTED BALANCE SHEET DATA

(DOLLARS IN THOUSANDS)

September 30, 2006			
Cash and Investments	$8,016	Accounts Payable	$27,857
Accounts Receivable, Net	$22,341	Short-term Debt/Current Maturities	
Other Current Assets	$39,929	Other Current Liabilities	$19,916
Total Current Assets	**$70,286**	**Total Current Liabilities**	**$47,773**
Property, Plant, and Equipment, Net	$721,204	Long-term Debt	$604,904
Long-term Investments		Deferred Income Taxes	$39,180
Intangible Assets, Net	$174,256	Other Liabilities	$80,712
Other Assets	$74,410	Shareholders' Equity	$267,587
Total Assets	**$1,040,156**	**Total Liabilities and Shareholders' Equity**	**$1,040,156**

EDWARDS

IMPORTANT DISCLOSURES



Pricing sources: Factset and IDSI

PRICE OBJECTIVE (PO) CHANGES *

Date	Closing Price	PO	Date	Closing Price	PO	Date	Closing Price	PO
11/17/2005	28.12	31.00	11/28/2006	38.33	44.00			
10/16/2006	34.32	38.00	01/21/2007		48.00			

* NA: Positive rating removed; no price objective supplied.

RATING/SUITABILITY CHANGES

Date	Closing Price	Rating/Suitability	Date	Closing Price	Rating/Suitability
11/17/2005	28.12	Buy/Conservative			

ANALYST COVERAGE CHANGES

Analyst	From	To	Analyst	From	To
Neil A. Kalton	11/17/2005				

EDWARDS

IMPORTANT DISCLOSURES

Rating	Master List Companies	Current Rating Distribution	Past 12 months Investment Banking Clients	Past 12 months % of Investment Banking Clients *
Buy	252	33%	49	19%
Hold/Neutral	474	63%	36	8%
Sell	32	4%	1	3%

* Percentage of Investment Banking Clients on Master List by rating.

OUR 3-TIER RATING SYSTEM (12-18 month time horizon)

Buy: A total return is anticipated in excess of the market's long-term historic rate (approximately 10%). Total return expectations should be higher for stocks which possess greater risk.

Hold: Hold the shares, with neither a materially positive total return nor a materially negative total return is anticipated.

Sell: Stock should be sold, as a materially negative total return is anticipated.

RISK SUITABILITY (Relates to fundamental risk, including earnings predictability, balance sheet strength and price volatility)
Conservative: Fundamental risk approximates or is less than the market.
Aggressive: Fundamental risk is higher than the market.
Speculative: Fundamental risk is significantly higher than the market.

The suitability ratings assigned by A.G. Edwards industry analysts to individual securities should be reviewed by investors and their financial consultants to determine whether a particular security is suitable for their portfolio, with full consideration given to existing portfolio holdings.

COMPANY SPECIFIC DISCLOSURES:
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AGE has received compensation for investment banking services within the past 12 months.
AGE expects to receive or intends to seek compensation for investment banking services within the next three months.
The subject company is or was a client of AGE during the past 12 months for investment banking services and analyst is aware of same.

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